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14 October 1980

MEMORANDUM

SUBJECT: Italy: Prospects for the New Government

The viability of a four-party coalition--the details of which Italian Prime Minister-designate Forlani probably will announce later this week--almost certainly will depend on the perquisites the governing parties are willing to grant the opposition Communists. [redacted]

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The formation of a Christian Democratic-Socialist-Social Democratic-Republican coalition--that may also enjoy the parliamentary backing of the Liberals--virtually became assured last week when the Christian Democratic leadership unanimously endorsed the proposal. The Christian Democratic move reflects a tactical reconciliation between the party's majority forces, which favor a governmental alliance with the Socialists and the smaller parties, and its strong left wing, which prefers greater cooperation between the government and the opposition Communists. [redacted]

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The price for the Christian Democratic truce probably includes important party leadership posts and cabinet seats for the left wing. [redacted]

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the Communists would attenuate their opposition to the government in return for formal consultation on government policies and important parliamentary and bureaucratic appointments. The ability of leftwing Christian Democrats to pull off this deal will depend ultimately on the more conservative, dominant elements of their party which recently have demonstrated greater flexibility vis-a-vis the Communists. [redacted]

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The Communists almost certainly will deal with a Forlani government pragmatically--shaping their opposition on a case-by-case basis. The demise of the Cossiga government appears to have fulfilled the immediate aims of the party's policy--to demonstrate that a Christian Democratic-Socialist alliance is an inadequate basis for effective government. Now for the sake of party morale the Communists must demonstrate that they are again making tangible progress toward the goal of a direct governing role. If the governing parties are not forthcoming, the Communists almost certainly will sharpen up their opposition. [redacted]

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There are indications, however, that Socialist chief Craxi is determined to limit any Communist role in the national governing process. Craxi is committed to demonstrating that the Socialists are the pivotal party in Italy's governability. In fact, since the Cossiga government's resignation last month, Craxi has been maneuvering to underscore his party's role as the government's "guarantor." He has apparently succeeded in weakening his party's left wing--which favors a "confronto" with the Christian Democrats only in conjunction with the Communists. Craxi also is aiming at maximizing his own and Socialist influence in the next coalition by virtually "coopting" the Social Democrats through an agreement to coordinate both parties' policies and approaching the Radicals to obtain the tacit support of that party for a new coalition. [redacted]

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The Socialist chief and his conservative Christian Democratic allies may again try to isolate the Communists and could be counting on an expanded parliamentary majority--the inclusion of the Social Democrats and possibly Liberal support--to provide an added cushion for the new government. These extra votes could outweigh any potential parliamentary defections from the Christian Democratic and Socialist left, such as those that forced the Cossiga's downfall. The refusal of the new government to cooperate with the Communists, however, would likely renew divisions within the two major governing partners, as well as further antagonize the Communists. Under these circumstances, the government is likely once again to be paralyzed and would run the risk of being brought down on some key issue in the future. [redacted]

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If, on the other hand, the Communists are given the opportunity to participate in the government's decisionmaking process and the implementation of its policies, a Forlani-led government might serve as an "apprenticeship" period in which the Communists would be under the gun to demonstrate their reliability--possibly as a prelude to becoming an equal governing partner. The resolution of the current labor imbroglio over Fiat's intention to fire thousands of workers undoubtedly will be the first test of the new arrangement and the intentions of all those concerned. [redacted]

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Italy: Suggested Talking Points

Political

Christian Democrats--The compromise on the new governing formula seems to have papered over--perhaps only temporarily--the major issue dividing the party: whether the Socialists or the Communists should be the Christian Democrats' principal interlocutor at the national political level. However, the compromise on the new governing formula seems vague and contains inherent contradictions that may cause it to come unstuck as the new government attempts to tackle major substantive issues.

Socialists--Party chief Craxi seems to have solidified his hold on the Socialist leadership by reducing the influence of its left wing and improved his leverage within the government by his agreement with the Social Democrats and his flirtations with the Radicals. But the Socialists remain a basically schizophrenic party, and Craxi's ability to minimize and ultimately eliminate potential splits depends on his success in demonstrating his party's "centrality"--a concept that inevitably will lose credence if the new government comes to depend on the Communists in some way for support.

Communists--The resignation of the Cossiga government has relieved some of the internal pressure on Berlinguer by providing the Communist chief with a badly needed tactical victory. By mounting a "hard opposition" against the previous government, Berlinguer was able to mollify the traditionalist rank and file which was dissatisfied with the party's unsuccessful efforts to capture a direct governing role. Now, the Communists probably can afford to shift gears--at least for a while--and adopt a "soft line" to reassure those moderate non-Communists who have supported the party in the past.

Economics

Economics Program and Fiat Settlement--A key test of the new coalition will be its success in working out an acceptable economic program. This issue and the settlement of the Fiat dispute will be important indicators of whether the Communists will be willing to cooperate with the government and whether the governing parties will be willing to accept Communist assistance in tackling these problems.

Public Order

Terrorism--Periods in which the Communists have lent support to the government usually have been accompanied by an increase in terrorist violence on the left. If the Communists do, in fact, moderate their stance toward the new government, the level of terrorist activity will

be a good barometer of whether recent police successes against terrorists have seriously damaged their operational capabilities-- and whether the Communists will come under renewed pressure from their leftist supporters to adopt a tougher opposition line.

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